

**THE PORT
OF LOS ANGELES** 

America's Port

Report of the Internal Auditor

Audit Committee Meeting (Revised)

March 30, 2023



Internal Audit Presentation Objectives

- Status – Internal Audit Activities since Last Report
- COSO Framework & Its Importance
- Risk Assessment
- Audit Plan

Status Update – From Prior Meeting



- RISK ASSESSMENT & AUDIT PLAN
 - ✓ Included in this Presentation
- STAFFING
 - ✓ Current Staffing: Hired Internal Auditor III (start date ~ 4/10/23)
 - ✓ Future Staffing: Student Professional Worker ~ late FY23,
Internal Auditor II ~ early FY24
- CONTRACTS – March 30th Board Meeting; Submission of Board Report with Agreements for approval & signature

Status Update – From Prior Meeting

- AUDIT RECOMMENDATIONS FOLLOW UP
 - Assigned to new Internal Auditor III
 - Some open items currently in review

- PERFORM AUDITS & CONSULTING PROJECTS
 - Advisory memos in process
 - Pending support (audit consulting pool & staff)

- CONNECTIONS
 - Met with all executives and 95% of all directors
 - Used management concerns & requests in development of risk assessment and Audit Plan

Status Update – Work Aligned with Goals

GOAL 1 - Promote *ethical culture* and importance of employees' roles in identifying and *preventing fraud*.

ACTIONS

- Fraud Prevention Training to Management
- Review Training Compliance on Controller's Fraud Training, Ethics, et al

GOAL 2 - Identify **risk** and assess *control deficiencies* in financial and operating functions.

ACTIONS

- Risk Assessment used to develop Audit Plan
- Identified concerns & will issue memos related to control deficiencies
 - ✓ Warehouse Management
 - ✓ Monitoring of Key Mandatory Trainings

Status Update – Work Aligned with Goals



GOAL 3 – Perform *audits and consulting engagements* that help meet the Port’s objectives.

ACTIONS

- Nothing yet, have identified preliminary scope of work for task orders

GOAL 4 – Ensure *revenues* are accurately assessed and collected and tenants are in compliance with permits.

ACTIONS

- Nothing yet, have identified audits & ready to develop task orders

GOAL 5 - *Train* and develop audit staff.

ACTIONS

- Developed orientation materials & other training materials

COSO Cube & What it Means to Us

COSO – The Committee on Sponsoring Organizations

Controls are not just financial, they can also be operational.
Controls help us achieve our objectives.

Using the COSO model to meet goals & objectives:

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring



COSO Principles of Internal Control

COSO's 17 principles of internal control – summarized

Control environment

- 1 Demonstrates commitment to integrity and ethical values
- 2 Exercises oversight responsibilities
- 3 Establishes structure, authority, and responsibility
- 4 Demonstrates commitment to competence
- 5 Enforces accountability

Risk assessment

- 6 Specifies suitable objectives
- 7 Identifies and analyzes risk
- 8 Assesses fraud risk
- 9 Identifies and analyzes significant change

Control activities

- 10 Selects and develops control activities
- 11 Selects and develops general controls over technology
- 12 Deploys through policies and procedures

Information and communication

- 13 Uses relevant information
- 14 Communicates internally
- 15 Communicates externally

Monitoring activities

- 16 Conducts ongoing and/or separate evaluations
- 17 Evaluates and communicates deficiencies

Source: Audit Committee Brief, March 2014. Deloitte Development Corporation. All rights reserved.

Risk Assessment

A risk assessment typically views risks by programs. Understanding that universe will take time, so risk assessment was done by division based on relevant criteria. The goal of Internal Audit's risk assessment was to develop a risk-based audit plan.

➤ Risk factors considered in the assessment:

- ✓ SIZE OF THE DIVISION – Budget, Budgeted Positions, Revenue Oversight
- ✓ EMPLOYEE MORALE & SAFETY – Grievance Claims, Employee Turnover, Work Comp Claims
- ✓ ETHICAL CONSIDERATIONS – Contracts Overseen (future – Fraud complaints, Training Attendance)
- ✓ MANAGEMENT CONSIDERATIONS – Concerns & Suggestions from Management

Risk Assessment

What areas could be affected:

➤ Financial



➤ Reputation



➤ Operations



Risk Assessment Results

RANKING OF RISKS & RELATED AUDITS

Risk of not meeting objectives and/or fraud risk was assessed and ranked as High, Moderate, and Low for its Likelihood and its Impact. Inherent risk is the risk before any controls are in place.

The analysis is primarily considered as some controls are in place and effectively working.

- Likelihood – Weighs how likely that risk going to happen
- Impact – Weighs how detrimental that risk could be

Risk Assessment Results



The Port's divisions were scored and ranked into High, Medium & Low Risk areas within the department. Further discussion with division management is needed to determine programs and scope of work.

6 HIGH RISK DIVISIONS – Construction & Maintenance, Port Police, Environmental Management, Information Technology, Port Pilots, Cargo/Industrial Real Estate, Waterfront/Commercial Real Estate

11 MEDIUM RISK DIVISIONS – Engineering, Contracts & Purchasing, Construction, Cargo Marketing, City Attorney, Community Relations, Risk Management, Accounting, Human Resources, Executive Office, Maintenance Improvement Program

Risk Assessment Results



11 LOW RISK DIVISIONS – Financial Planning & Analysis, Graphics Services, Government Affairs, Planning & Strategy, Commission Office, Media Relations, Internal Audit, Goods Movement, Debt & Treasury Mgmt., Trade Development, Labor Relations & Workforce Development

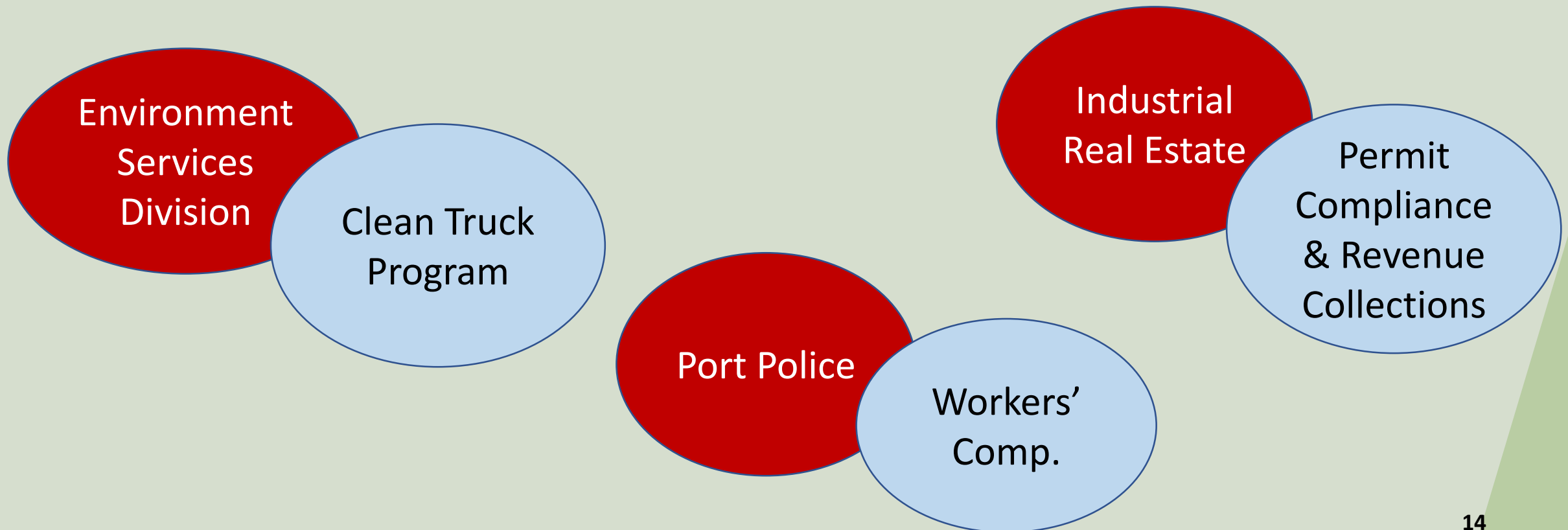
DIVISION RANKINGS OVERLAID WITH OTHER CRITERIA

- ✓ Areas that have not been audited within last 7 years
- ✓ Areas where unmitigated risks have been identified
- ✓ Return on investment considerations (industrial permits)
- ✓ Audits/reviews requested by management

Risk Assessment Results

Audit Requests or Areas of Interest

- Linked Division Risk to Program Audits Requested; Examples shown



Initial Three-Year Audit Plan*

Audit plans should be **prioritized** and **flexible** in order to meet the organization's needs. Some areas may be of high risk now, but divisions are addressing their processes to mitigate the risk or there are significant changes occurring (e.g. Oracle Cloud implementation). The Plan also includes consulting memos and follow up work. The audit plan will be reviewed and updated annually.

* This Initial Three-Year Plan is aligned with Consultant Agreements (4/23 – 3/26).

Other Considerations

- Outsourced or In-House
- Resource capacity (budget & staff availability)
- Disruption to Divisions
- Immediacy of the Concern

Initial Three-Year Audit Plan

The initial Audit Plan identifies 30 projects / engagements (combination of audits, reviews and consulting engagements):
12 audit consultants, 18 in-house.

Fiscal Year 2023 – Consultants (2 engagements)

1. Lane Victory (complete audit in progress)
2. PBF Energy Permit Revenue & Compliance



Initial Three-Year Audit Plan



Fiscal Year 2023 – In-House (6 projects)

1. Audit Recommendation Follow Ups
2. Monitoring of Mandatory City-Wide Trainings (memo)
3. Goods Receipts & Returns to Vendor (tbd)
4. Miscellaneous Warehouse (155a) Contents (items not inventoried, memo)
5. Wharfinger Process Review (Walk-through)
6. Workers' Compensation Administration
(focus on sworn police, memo/audit follow up)

Initial Three-Year Audit Plan

Fiscal Year 2024 – Consultants (3 engagements)

1. Construction Contract Monitoring & Administration Process (controls)
2. Internal Controls Review & Testing (Focusing on Reporting of Capital Projects)
3. WWL Permit Revenue & Compliance (Autos)



Initial Three-Year Audit Plan

Fiscal Year 2024 – In-House (5 projects)

1. Apprenticeships (Consulting)
2. Cal Pacific Permit Revenue & Compliance (manages smaller tenants in POLA & POLB)
3. Clean Truck Program Fee Collection (collaborate with POLB)
4. Grant Policies (awards & ongoing administration)



5. Review of Leasing Policies & Practices with Benchmarking (consulting)

Initial Three-Year Audit Plan

Fiscal Year 2025 – Consultants (3 engagements)

1. Construction & Maintenance
Staffing & Organization



2. Internal Services Review (Fire, Rec. & Parks, City Attorney)
3. Procurement Outreach Practices & Benchmarking



Initial Three-Year Audit Plan



Fiscal Year 2025 – In-House (4 projects)

1. New Technologies Assessment / Automating Ancillary Needs (Doc. Mgmt., GIS, BI, etc.)
2. Jankovich (successor owner) Permit Revenue & Compliance
3. POLA's Sponsorships & Memberships
4. Succession Planning Process

Initial Three-Year Audit Plan

Fiscal Year 2026 – Consultants (4 engagements)

1. Community Investment Grants
2. TraPac Permit Revenue & Compliance
3. Potential Project – Consultant Reviews (could be one or many, e.g. IT consultants, Environmental consultant, Grants consultant)
4. Potential Project – Evaluate construction delivery models (white paper)



Initial Three-Year Audit Plan

Fiscal Year 2026 – In-House (3 projects)

Revenue & lease compliance:

1. California Yacht Marina
2. SSA Pacific, Inc.
3. Praxair, Inc.



Questions / Requests / Comments

Discussion

Contact Information:

Barbara (Barb) J. Steelman, CIA, CMA, MBA

Director of Internal Audit

bsteelman@pola.org

310.732.3647

